

OIL AND GAS LEASE

Lease No.

MADON-05456-00

THIS AGREEMENT, made and entered into this the 19 day of August, 2003 (Effective Date) by and between **Jack M. Peckham and GERALYN M. Peckham, his wife, (Remainder Interest), and Anita M. Peckham, a widow (Life Estate Interest), 4120 Augusta Rd., Madison, New York 13402**, hereinafter called to as Lessor (whether one or more), and **Mason Dixon Natural Resources, LLC**, of 102 Cambridge Place, Bridgeport, WV 26330, hereinafter called Lessee,

WITNESSETH: that said Lessor, in consideration of the sum of ONE DOLLAR (\$1.00), other good and valuable benefits, and the covenants hereinafter contained on the part of the Lessee, all of which are hereby expressly acknowledged in their receipt and sufficiency, does hereby grant, demise, lease and let, exclusively unto Lessee and its successors and assigns and hereafter during the term hereof to no other party(ies), with covenants of general warranty, for the purposes and with the rights of drilling, testing, producing, injecting and/or storage of oil and/or gas and any of their constituent parts or related elements whether liquid or gaseous (expressly including coalbed methane and gob gas) in any underlying strata, and withdrawing same therefrom whether or not originally produced from or injected into any strata underlying the lease premises described below or other lands, and otherwise exploring and operating for oil and gas by any and all means now known or utilized in the future (expressly including the right to conduct seismic and other geophysical and geochemical surveys), and of laying pipelines and building tanks, roads, stations, houses, powerlines and the like for valves, meters, compressors, dehydrators, regulators, and other facilities, with all other rights and privileges incident to or convenient for the operation of the lease premises and /or any other lands (expressly including the right to transport gas produced off of the lease premise and/or lands pooled or unitized therewith, which rights-of-way hereof are specifically granted hereunder exclusively to the Lessee and its successors and assigns), all of that certain tract(s) of land situate in the Town of **Madison**, County of **Madison**, State of New York and bounded substantially as follows:

On the North by lands of : **T. Peckham**

On the East by lands of : **Valley Rd.**

On the South by lands of : **J. Peckham**

On the West by lands of : **Augusta Rd.**

Tax Map No.(s) **102-1-23.12**

and containing, for the purpose of calculating rentals **29.40** acres of land whether actually containing more or less, and part of all of said lands is described in that certain deed to Lessor from **Roger S. Peckham and Anita M. Peckham**, dated **5-30-90** recorded in **Liber 910**, Page **72**, in the County Clerk's Office of said County, it being the intent of Lessor to include all lands owned by the Lessor in said County.

1. It is agreed that this lease shall remain in force for a primary term of five (5) years from the Effective Date hereof and as long thereafter as the said land is operated by Lessee in the production of oil or gas. It is expressly understood that Lessee shall maintain its rights of way as granted herein for its pipeline and other surface facilities then existing on the leased premises at the expiration or termination of this lease.

2. (a) Lessee covenants and agrees to deliver to the credit of Lessor, his heirs or assigns, free of costs, in the pipe line to which said Lessee may connect its wells, a royalty of one-eighth (1/8) of native oil produced and saved from the lease premises.

(b) Lessee covenants and agrees to pay Lessor as a royalty for the native gas from each and every well drilled on said premises producing native gas, an amount equal to one-eighth (1/8) of the gross proceeds received from the sale of same at the prevailing price for gas sold at the well, for all native gas saved and marketed from the said premises.

3. Within One Hundred Eighty (180) days from the Effective Date hereof Lessee agrees to pay to the Lessor the sum of **Eighty Eight and 20/100 DOLLARS (\$88.20)** annually, commencing from the date hereof as a rental for the first 12 months, subject however to the right of surrender hereinafter granted to Lessee, and it is understood and agreed that the rental as hereinabove provided for is the chief consideration until commencement of a well. The commencement of a well whether commercially productive or unproductive shall, however, be and operate as a full liquidation of all rentals thereafter accruing under this provision of this lease during the remainder of the term hereof. Lessee may, at its option, pay rentals and/or royalties quarterly or annually.

4. All payments under this lease shall be made by check or voucher to the order of Lessor and mailed to the above address until the Lessee shall have written notice from the Lessor, its heirs or assigns, accompanied by original or certified copies of deeds or other documents as Lessee may require evidencing such change of ownership directing payments to be made otherwise, and any payments made as above until such direction, and thereafter in accordance with such direction shall absolve the Lessee from any liability to any heir or assign of the Lessor. All payments of rental and/or royalty are to be made according to lessor's respective interests therein, as hereafter set forth, and this lease shall not be forfeited for Lessee's failure to pay any rentals or royalties until Lessee has received written notice by registered mail of such default and shall fail, for a period of thirty (30) days after receipt of such notice to pay same.

5. Lessor excepts and reserves a total amount of 200,000 cubic feet of gas annually or such part thereof as Lessor may use each year from the gas that Lessee may hereafter produce or otherwise have available from one gas production well completed and operated by Lessee hereunder upon the leased premises, which said amount of 200,000 cubic feet of gas per year Lessor shall be entitled to receive free of cost for heat and light in one dwelling house on the lease premises when and as long as Lessee may elect to produce or operate a well for the aforesaid purposes upon the lease premises, by Lessor laying the necessary lines and making connections at Lessor's cost at such point on the demised premises as may be designated by the Lessee, provided said gas is used with economical appliances and is measured by meter furnished by Lessor. The regulation of such gas will be by regulators furnished by Lessor, and approved by Lessee, placed at a point designated by Lessee, with said gas to be used at Lessor's own risk and Lessee not to be in any way liable for any interruption or insufficient supply of such gas for said domestic use caused by pumping stations, breakage of lines or otherwise, and nothing herein shall prevent the Lessee from abandoning any well or wells or pipelines on the lease premises and removing the pipe therefrom at any time. If more than 200,000 cubic feet per year is used, the excess shall be paid for at the rate charged to domestic consumers in the same area, and in case of default in payment for gas used in excess of said 200,000 cubic feet, Lessee is hereby authorized to deduct the amount thereof from any royalty or other payments that are then due, or may later become due, under the terms of this lease.

6. To pay to the Lessor an annual storage rental of two dollars (\$2.00) per acre per year for the utilization of one or more strata underlying the lease premises for gas storage operations, for so long (in the sole estimation of Lessee) as any stratum is so utilized, and to give to Lessor written notice of the use of the premises for storage operations; and it is agreed that said storage rental is in lieu of delay rental,

shut-in royalty, and/or royalty payments, except that storage rental and royalty payments shall be paid simultaneously by Lessee if Lessee simultaneously conducts storage operations in one or more strata in the premises and produces oil and/or gas from one or more other strata; and it is further agreed that the termination of gas storage operations shall be in full liquidation of all storage rental during the remainder of this lease.

7. In addition to the covenants of general warranty hereinabove contained, Lessor further covenants and agrees, that if Lessor's title to the lease premises shall come into dispute or litigation, or, if, in the judgment of Lessee, there are bona fide adverse claims to the rentals or royalties hereinabove provided for, then Lessee, at its option, may withhold the payment of said rentals or royalties until final adjudication or other settlement of such dispute, litigation, claim or claims; and that Lessee, at its option, may pay and discharge any taxes, mortgages or other lien or liens, existing, levied, assessed or which may hereafter come into existence or be levied or assessed on or against the leased premises, and, in the event it exercises such option, Lessee shall be subrogated to the lien and any and all rights of any holder or holder thereof, and may reimburse itself by applying to the discharge of any such mortgage, tax, or other lien or liens, any rental or royalty accruing hereunder. Lessor pledges and covenants to execute any and all curative instruments reasonably required by Lessee in furtherance of Lessor's warranties. It is agreed that if Lessor owns an interest in the land herein described less than the entire fee simple estate, then the rentals and royalties to be paid Lessor shall be reduced proportionately.

8. If and when drilling or other operations hereunder are delayed or interrupted by lack of water, labor or material, or by fire, storm, flood, war, rebellion, insurrection, riot, strike, differences with workmen, or failure of carriers to transport or furnish facilities for transportation, or as a result of some order, rule, regulation, requisition or necessity of the government, or as the result of any other cause whatsoever beyond the control of Lessee, the time of such delay or interruption shall not be counted against Lessee, anything in this lease to the contrary notwithstanding. All express or implied covenants of this lease shall be subject to all Federal and State Laws, Executive Orders (including Consent Orders), Rules or Regulations, and this lease shall not be terminated, in whole or in part, nor Lessee held liable in damages for failure to comply therewith, if compliance is prevented by, or if such failure is the result of any such Law, Order, Rule or Regulation.

9. Lessee shall have the right at any time during the term of this lease or after the expiration or termination thereof to remove all machinery, fixtures, pipe lines, houses, buildings, and other structures placed on said premises, including the right to pull and remove all casing and tubing.

10. If the Lessee shall begin operations for the commencement of a well during the term of this lease or any extension thereof, the Lessee shall then have the right to complete the drilling of such wells, and if oil or gas or either of them be found in paying quantities, this lease shall continue and be in force and with like effect as if such well had been completed within the term first herein mentioned.

11. Lessee shall have the right to assign this lease or any interest and the assignee of Lessee shall have corresponding rights, privileges, and obligations with respect to said royalties and rentals as to the acreage assigned to it.

12. Lessee shall upon completion of the first productive well upon said lease premises make a diligent effort to obtain a pipeline connection but any delay shall not be counted against the Lessee provided Lessee shall, as prepaid royalty, make shut-in royalty payments in the amount equal to the delay rental amount described above for quarterly periods, beginning one year from the date the first productive well shall be completed until said first well shall be connected to a pipeline. In the event that production of oil, gas or their constituents is thereafter interrupted and not marketed from any well(s) capable of production for a period of twelve (12) consecutive months, Lessee shall pay to Lessor annually for each twelve (12) consecutive months shut in period as shut-in royalty income and as credit against the payment of future royalties the sum of one dollar per acre for each well(s) shut-in, which payments shall serve to maintain this Lease in full force and effect. Lessee's failure to timely and/or properly pay said shut in royalty shall render Lessee liable for the amount due, but shall not operate to terminate this lease.

13. Lessee may, at any time during the term hereof, cancel and surrender this lease, in whole or in part, and be relieved of any and all obligations, payments and liabilities thereafter to accrue as to the surrendered premises, by the mailing of a notice of such surrender to Lessor or by filing a Release or Surrender of Oil and Gas Lease(s) of record describing the premises being released or surrendered, provided that Lessee shall maintain surface rights-of-way for its existing surface facilities over the surrendered lands.

14. It is agreed that said Lessee may drill or not drill on said land as it may elect, and the consideration and rentals paid and to be paid hereunder constitute adequate compensation for such privilege.

15. It is agreed that said Lessee shall have the privilege of using free of charge sufficient water, oil and gas from the said premises to run all machinery necessary for drilling and operations thereon, and at any time to remove all machinery and fixtures placed on said premises.

16. No well shall be drilled by Lessee within 200 feet of the dwelling house or barn now on said premises, except by consent of Lessor.

17. The lease premises may be fully and freely used by Lessor for any purpose, excepting such parts as are used by Lessee in operation hereunder.

18. Lessee shall pay Lessor for all damages to growing crops, fences or trees caused by Lessee's operations.

19. This instrument may be executed in counterparts each having the same validity as if the original. Should any one or more of the parties named as Lessor fail to execute this lease, it shall nevertheless be binding upon all such parties who do execute it as Lessor.

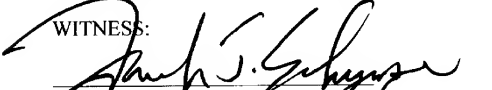
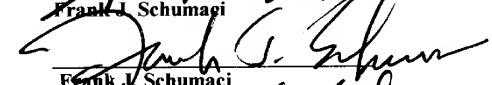
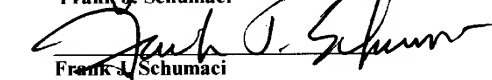
20. Lessor grants to the Lessee, its heirs and assigns, the right to consolidate the above described premises or any part thereof at the option of Lessee with others to form a unit not to exceed 640 acres for the development to the same effect as if said premises together with others in the area had been jointly leased by various Lessors to the Lessee as a single undivided tract and in such event Lessor agrees to accept, in lieu of the royalty hereinbefore recited, such proportion of one-eighth (1/8) of the oil or gas marketed from the unitized area as his acreage included therein bears to the total acreage of the unitized area, Lessee may give notice to Lessor of such consolidation by mail to the above address or by filing a declaration of record describing the properties so consolidated or unitized.

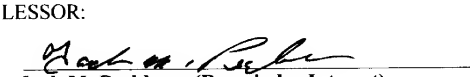
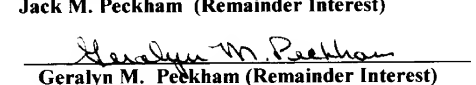
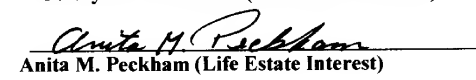
21. Lessee may extend the primary term for one additional period equal to the primary term by paying to Lessor at any time within the primary term proportionate to Lessor's percentage of ownership an Extension Payment equal in amount to the annual Delay Rental as herein described, or by drilling a well on the Leasehold which is not capable of commercial production.

All the terms, conditions, and covenants herein contained shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, successors, personal representatives and assigns, but no representations other than those herein contained shall be binding on either party.

IF THIS LEASE BECOMES FORFEITED, TERMINATED, OR EXPIRES, THE LESSEE, OR IF THE LEASE HAS BEEN ASSIGNED, THE ASSIGNEE IS REQUIRED TO PROVIDE A DOCUMENT CANCELING THE LEASE AS OF THE RECORD, AT NO COST TO THE CURRENT LANDOWNER. IF THE LESSEE OR ASSIGNEE FAILS TO CANCEL THE LEASE, THE CURRENT LANDOWNER MAY COMPEL A CANCELLATION PURSUANT TO SECTION 15-304 OF THE GENERAL OBLIGATION LAW.

IN WITNESS WHEREOF, the lessor has/have hereunto set its/their hand(s) the day and year first above written.

WITNESS:

Frank J. Schumaci

Frank J. Schumaci

Frank J. Schumaci

LESSOR:

Jack M. Peckham (Remainder Interest)

Geraldyn M. Peckham (Remainder Interest)

Anita M. Peckham (Life Estate Interest)

STATE OF NEW YORK)
) SS:
COUNTY OF)

On this _____ day of _____, in the year _____, Before me, the undersigned, a Notary Public in and for said State, personally appeared _____, personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed this instrument.

Notary Public
My Commission Expires: _____

Acknowledgment by Subscribing Witness:

STATE OF NEW YORK)
COUNTY OF Oneida) SS:

On this 23rd day of February, in the year 2004, Before me, the undersigned, a Notary Public in and for said State, personally appeared **Frank J. Schumaci**, the subscribing witness to the foregoing instrument, with whom I am personally acquainted, who, being by me duly sworn, did depose and say that he/she/they reside(s) in **Clinton, New York**, that he/she/they know(s) **Jack M. Peckham and Geraldyn M. Peckham, his wife, (Remainder Interest), and Anita M. Peckham, a widow (Life Estate Interest)**, to be the individual described in and who executed the foregoing instrument; that said subscribing witness was present and saw **Jack M. Peckham and Geraldyn M. Peckham, his wife, (Remainder Interest), and Anita M. Peckham, a widow (Life Estate Interest)**, execute the foregoing instrument; that said witness at the same time subscribed his/her/their name(s) as a witness thereto.


Notary Public

My Commission Expires:
JANET A. RAYMER
Notary Public in the State of New York
Appointed in Oneida County
My Commission Expires March 30, 2007